MNQUMA LOCAL MUNICIPALITY

PROVISION FOR BAD DEBT POLICY

Budget and Treasury Office
Office of the Chief Financial Officer
Office no 28 & 29 ,CNR King and Mthatha Street
Butterworth
Tel 047 401 2431
Fax 047 491 0195
Email:nntshanga@mnquma.gov.za

1. OBJECTIVE

The objective of the provision for bad debt is to make a realistic provision annually in the Revenue budget to cater for charges raised in terms of the budget that cannot be collected.

2. CALCULATION OF THE PROVISION OF BAD DEBT

The calculation of the provision for bad debt will be based on an extract of Council's debtor's book as at the last day of the financial year.

The extract of Council's debtors book must reflect detailed ageing of the debt within the following debt categories: -

(a) Debt per service

(b) Debt per type of debtor

A provision for bad debt amount will be calculated in terms of each of the abovementioned categories and will be submitted to the Chief Financial officer for consideration of the provision amount to be included in the Revenue Budget.

The provision for bad debt amount will be an accumulative expression of a percentage of the amount of the debt occurrence at a certain aging and an amount that represents an accumulation of individual debt amounts.

3. DEBT PER SERVICE

When calculating the amount of the provision for bad debt in terms of the <u>debt per service</u> the following must be considered: -

(a) The probability of the ageing of the debt.

(b) The sliding scale percentage that will be applied on the age of the debt commencing with **current debt and considering any subsequent payments made per debtor as at reporting date**. The percentage must be increased when progressing to the oldest debt occurrence. The probability of collecting the debt in the oldest occurrence will be zero, therefore the provision must be 100%.

(c) The probability of recovery between the different types of services. The probability of recovering property rates versus the recovery of other services in the same ageing occurrence will be higher, as property rates is a tax and only prescribes after 30 years, in terms of the relevant legislation.

(d) The payment trend of each service billed.

4. DEBT PER TYPE OF DEBT

When calculating the amount for the provision for bad debt in terms of the <u>debt per type of debt</u> the following must be considered: -

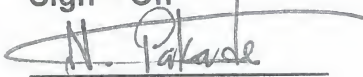(a) The probability of the ageing of the debt.

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5. CONCLUSION

Once the amount per service group and per type of debtor is calculated, the estimated provision for bad debt must be submitted to the Chief Financial Officer for approval of the most realistic amount to be included in the Revenue Budget.
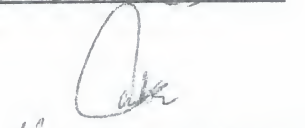
6. AUTHENTICATION

Policy adopted by Council on the: _31 MARCH 2011_ as per

Resolution Number: _SCM/11/006 .15(f)_

Sign – Off

N. Pakade

Municipal Manager

Executive Mayor